

DEPT. OF INSURANCE
BY

1 findings, the Examiners prepared the "Report of Examination of the Market Conduct
2 Affairs of Travelers Indemnity Company of Illinois" dated June 8, 1998.

3 3. The Department previously conducted a market conduct examination of
4 TIL. The on-site examination was concluded as of November 8, 1991. As a result, a
5 Consent Order, Docket # 7748, was filed by the Director on May 28, 1992. The
6 Consent Order stated in part as follows:

7 Respondents shall cease and desist from failing to comply with
8 orders of the Director, from canceling personal automobile
9 policies which have been in effect for at least sixty (60) days for
10 reasons other than those permitted by A.R.S. § 20-1631(B), not
11 complying with the proper notice of refund of unearned premium
12 and not providing 30 days to remedy unacceptable premise
13 conditions.

14 4. The Examiners reviewed 64 personal automobile cancellations and 187
15 personal automobile policies issued by the Company during the time frame of the
16 examination and found as follows:

17 a. TIL cancelled seven personal automobile policies after the first
18 60-day underwriting period.

19 b. TIL failed to evidence its proof of mailing on six policies.

20 c. TIL failed to provide the reason for the cancellation on two
21 policies.

22 d. TIL failed to comply with the proper notice of refund of unearned
23 premiums on two policies.

24 e. TIL surcharged five policies for non-fault accidents.

25 f. TIL failed to use filed rates on two policies.

5. The Examiners reviewed 216 homeowner cancellation/non-renewal
notices issued by the Company during the time frame of the examination and found as
follows:

1 a. TIL cancelled four homeowner policies after the first 60-day
2 underwriting period for reasons not allowed by statute.

3 b. TIL failed to provide 30 days to remedy unacceptable premises
4 conditions on 38 policies.

5 c. TIL failed to provide the reason for non-renewal on two policies.

6 d. TIL failed to evidence its proof of mailing on 17 policies.

7 6. The Examiners reviewed 97 first party automobile total loss claims
8 issued during the time frame of the examination and found that the Company failed to
9 include the air-quality tax and/or the city tax in the final settlement on 72 claim files.

10 7. TIL is a member of the Insurance Service Office ("ISO"), a property and
11 casualty rating organization duly licensed by the Department to file rates and forms on
12 behalf of its members. TIL has also independently filed certain rates and forms.
13 Such rates, rules and forms filed by TIL, or filed on its behalf, are included in this
14 Order's reference to TIL's filed rates and rules.

15 8. The Examiners reviewed 46 commercial automobile policies issued
16 during the time frame of the examination and found as follows:

17 a. TIL failed to issue three policies within 90 days of the policy
18 effective date.

19 b. TIL applied its schedule rating/business discretionary modification
20 (BDM) on three policies that were ineligible.

21 c. TIL used a different experience modification than the one
22 calculated and maintained on two policy files.

23 d. TIL failed to use the correct experience rating plan on six policies.

24 e. TIL failed to use the correct entry level for the calculation of
25 experience rating on 10 policies.

- 1 f. TIL applied an unfiled package modifier on one policy.
- 2 g. TIA failed to use filed deductible factors on six policies.
- 3 h. TIL failed to apply its transition rule when insureds were eligible
- 4 on 18 policies.
- 5 i. TIL failed to use filed rates (other than "A" rates) on 11 policies.
- 6 j. TIL use credits that were different than those generated by the
- 7 Company's mandatory auto grid analysis documentation on four policies.
- 8 k. TIL failed to include documentation or failed to adequately
- 9 document the application of the schedule rating or BDM credit/debits in the premium
- 10 determination of 17 policies.
- 11 l. TIL used schedule/BDM credits/debits that were different than
- 12 those documented on two policies.
- 13 m. TIL failed to provide the documentation of the experience
- 14 modification calculation used on 20 policies.
- 15 n. TIL failed to retain or produce premium development worksheets
- 16 for premium verification and compliance on 16 policies.
- 17 o. TIL exceeded its total filed schedule rating plan maximums on 18
- 18 policies.
- 19 p. TIL applied its discretionary credits in ways that were in conflict
- 20 with the filed schedule rating plan on six policies.
- 21 q. TIL failed to apply experience rating on four eligible policies.
- 22 r. TIL applied experience rating on four policies that were not
- 23 eligible for the application of the plan.
- 24 s. TIL failed to use its filed Premium Payment Plan on 19 policies.
- 25

1 t. TIL failed to obtain the mandatory underwriting survey on 27
2 policies.

3 u. TIL failed to obtain the mandatory rating grid matrix survey on 27
4 policies.

5 9. The Examiners reviewed 21 commercial package policies issued during
6 the time frame of the examination and found as follows:

7 a. TIL failed to consider the schedule rating plan on two policies.

8 b. TIL failed to use the correct entry level for the calculation of
9 experience rating on two policies.

10 c. TIL did not adhere to its rate filings by reducing its premium to
11 meet its competition on two policies.

12 d. TIL failed to apply the correct package modifier on five policies.

13 e. TIL failed to use the correct increase limit factor on two policies.

14 f. TIL failed to use filed rates on two policies.

15 g. TIL used an "A" rate different than the filed rate on three policies.

16 h. TIL failed to develop the composite rates according to its filing on
17 two policies.

18 i. TIL failed to include documentation for the application of
19 schedule/BDM modifications used in the premium determination of nine policies.

20 j. TIL failed to provide adequate documentation of schedule/BDM
21 credit/debits on two policies.

22 k. TIL used a different schedule/BDM modification than the one
23 documented on four policies.

24 l. TIL failed to evidence the calculation of the experience
25 modification used on 11 policies.

1 m. TIL failed to document the development of its multiple location
2 premium dispersion credits on two policies.

3 n. TIL failed to document and justify expense reduction credits on
4 eight policies.

5 o. TIL failed to retain or produce premium development worksheets
6 for premium verification and compliance on fifteen policies.

7 p. TIL failed to provide the statutory 60-day notice of premium
8 increase or change on the renewal of two policies.

9 q. TIL issued two renewal policies in a lower rated company without
10 evidence of justification for the change.

11 r. TIL exceeded its total filed plan maximums on five policies.

12 s. TIL applied its discretionary credits in ways that were in conflict
13 with the filed schedule rating plan on five policies.

14 t. TIL failed to apply experience rating on four policies that were
15 eligible.

16 u. TIL applied experience rating on three policies that were not
17 eligible.

18 v. TIL failed to use its filed Premium Payment Plan on 14 policies.

19 w. TIL applied unfiled modifications on seven policies.

20 x. TIL failed to rate for all exposures on seven policies.

21 y. TIL applied unfiled increase limit factors on nine policies.

22 10. The Examiners reviewed 26 highly protected risk (HPR) property files
23 that were issued in conjunction with national accounts written by TIL for the time
24 frame of the examination and found as follows:
25

1 a. TIL failed to attach the Arizona Cancellation endorsement to 14
2 policies.

3 b. TIL failed to notify the insured of premium increase on six policies.

4 c. TIL failed to follow its filed HPR filing on 26 policies.

5 11. The Examiners reviewed 33 national account files issued by TIL for the
6 time frame of the examination and found as follows:

7 a. TIL failed to include the policy premium, the composite rate and/or
8 the exposures being covered within the policy contract on eight policies (five auto and
9 three GL).

10 b. TIL failed to comply with NCCI rules for obtaining the insured's
11 election of the retrospective rating plan agreement on 10 worker's compensation
12 policies.

13 c. TIL failed to calculate the retrospective rating endorsement based
14 on the actual standard premium on seven worker's compensation policies.

15 d. TIL failed to calculate the retrospective adjustments during the
16 time specified in NCCI's rules on five policies.

17 e. TIL failed to use filed rating factors from Arizona's state specific
18 pages in rating four large deductible worker's compensation policies.

19 f. TIL failed to use the correct retro basic factor in calculating the
20 retro adjustment on one policy.

21 g. TIL used an unfiled Loss Rating Plan on 16 policies (six auto,
22 three garage and seven general liability policies).

23 h. TIL failed to charge for all known exposures on four policies (three
24 garage liability and one general liability policy).

1 i. TIL failed to follow its own Loss Rating Program on three policies
2 (one auto policy and two general liability policies).

3 j. TIL failed to retain adequate documentation of premium
4 development to determine compliance on 16 policies (six auto, three garage and six
5 general liability policies).

6 12. The Examiners reviewed 20 policies from the Company's Specialty
7 Insurance Division (SID) issued by TIL during the time frame of the examination and
8 found as follows:

9 a. TIL used an unapproved policy form excluding defense coverage
10 on three general liability policies.

11 b. TIL used an unfiled Loss Rating Plan on four general liability
12 policies.

13 c. TIL charged unfiled minimum earned premiums on three general
14 liability policies.

15 d. TIL used unfiled driver-risk modifications on three general liability
16 policies.

17 e. TIL used an unfiled "Retained Amount General Liability" Form
18 with three policies.

19 f. TIL attached an unfiled manuscript endorsement on three general
20 liability policies that stated that the policy would become "void" if the insured failed to
21 maintain a contract for claims adjustments.

22 g. TIL failed to retain adequate rate development documentation to
23 enable verification of compliance on three general liability policies.
24
25

1 13. TIL's failure to include all appropriate air quality and city sales taxes with
2 automobile total loss claims resulted in 72 insureds being underpaid a total of \$209.
3 TIL's failure to follow its filed rates or surcharging for non-fault accidents on personal
4 automobile coverage resulted in three insureds being overcharged a total of \$1,290.
5 TIL's failure to follow its filed rates on rules on commercial automobile and package
6 policies and national account policies resulted in 35 insureds being overcharged a
7 total of \$280,923. All refunds for commercial automobile, package policies and
8 national account policies have been paid.

9 10 CONCLUSIONS OF LAW

11 1. TIL violated A.R.S. §20-1631(D) and Docket #7748, the 1992 Consent
12 Order, by canceling personal automobile policies after 60 days for reasons not allowed
13 by statute.

14 2. TIL violated A.R.S. §20-1632(A) by failing to evidence proof of mailing
15 on personal automobile policy cancellations and not providing reasons for the
16 cancellations.

17 3. TIL violated A.R.S. §20-1632(A) and Docket #7748, the 1992 Consent
18 Order, in not providing the proper notice of refund and/or unearned premiums on
19 cancelled policies.

20 4. TIL violated A.R.S. §20-263 by surcharging for non-fault accidents.

21 5. TIL violated A.R.S. §20-385 by not using filed rates.

22 6. TIL violated A.R.S. §20-1652(A) by canceling policies after 60 days for
23 reasons not allowed by statute.

24 7. TIL violated A.R.S. §20-1652(B) by failing to provide 30 days to remedy
25 unacceptable premises conditions.

1 8. TIL violated A.R.S. §20-1653 by not providing valid reasons for non-
2 renewals.

3 9. TIL violated A.R.S. §20-1656 by failing to evidence proof of mailing on
4 homeowner policies.

5 10. TIL violation A.A.C. R20-6-801(H)(1)(b) by failing to include the air-
6 quality tax on first party total loss claims.

7 11. TIL violated A.R.S. §20-1120(B) by failing to issue policies within 90
8 days of the policy effective date.

9 12. TIL violated A.R.S. §20-400.01(A) by applying the schedule rating plan
10 or the company's BDM when the risks were not eligible; by using different experience
11 modifications than the ones calculated; by not using the correct experience rating
12 plan; by not using the correct loss cost entry level in the calculation of the experience
13 modification; by applying a package modification when the policy was not eligible; by
14 using deductible factors other than the filed ones; by not applying transition rule was
15 risks was eligible; by not using file rates (other than "A" rates); by applying different
16 factors than those documented on the auto grid; by not considering the application of
17 the schedule rating plan to risks that were eligible; by reducing premium in violation of
18 its rate filings to meet the competition's quote; by not using correct package modifiers;
19 by not using the correct increase limit factors; by using "A" rates that were different
20 than the filed rates; by not developing the composite rates according to filings; by
21 failing to follow the filed HPR filing; by failing to follow the company's loss rating
22 program; by applying discretionary credits that conflicted with the filed schedule rating
23 plan; and by failing to charge for all known exposures.

24 13. TIL violated A.R.S. §20-400.01(B) by failing to provide any
25 documentation or by providing inadequate documentation of the schedule rating/BDM

1 credit/debit factors; by using schedule/BDM credits/debits that were different than the
2 ones documented; by not providing documentation of the experience calculation used;
3 by failing to document the development of the multiple premium dispersion credit.

4 14. TIL violated A.R.S. §§20-400.01(B) and 20-448(C) by applying
5 undocumented expense reductions.

6 15. TIL violated A.R.S. §20-400.01(D) by failing to retain premium
7 development documentation in order to verify compliance.

8 16. TIL violated A.R.S. §20-1677 by not providing the insured 60 days notice
9 of premium increase.

10 17. TIL violated A.R.S. §§20-385(A), 20-400.01(A) and 20-448(C) by
11 changing a policyholder to a lower rated company on renewal without justification.

12 18. TIL violated A.R.S. §§20-400.01(A) and 20-448(C) by exceeding the
13 range of permitted schedule, BDM credit/debits and plan levels; by not applying
14 experience rating when policies were eligible; by applying experience rating when
15 risks were not eligible; by using a premium payment plan other than the one filed; by
16 using unfiled modifications; by not rating for all coverages or exposures; by using
17 unfiled increase limit factors; by failing to obtain the mandatory underwriting survey
18 and failing to obtain the mandatory underwriting/rating grid matrix.

19 19. TIL violated A.R.S. §20-1113(B)(7) by not attaching the Arizona
20 cancellation endorsement.

21 20. TIL violated A.R.S. §20-1113(B) by issuing a policy that did not contain
22 policy premiums, composite rates and the exposures being covered.

23 21. TIL violated A.R.S. §20-357(E) by failing to comply with NCCI rules for
24 obtaining the insured's election of the retrospective rating components.

22. TIL violated A.R.S. §§20-357(E) and 20-400.01(A) by failing to calculate the retro based on the standard premium; by failing to calculate the retro adjustments during the timeframe specified by NCCI Plan rules; by failing to use filed state specific Large Deductible rate pages and tables; by failing to use the correct policy retro factors when calculating the annual retro adjustments.

23. TIL violated A.R.S. §§20-385(A) and 20-400.01(A) by using an unfiled Rating/Loss Rating Plan; by using unfiled minimum premiums and by using unfiled driver risk modifications.

24. TIL violated prior Docket Order #6219 by using an unapproved form which excluded defense coverage and Docket Order #6618 by not making its annual forms filing.

25. TIL violated A.R.S. §20-398(A) by attaching an unfiled manuscript endorsement that would void the policy contract if the insured failed to maintain a contract for claims adjustment.

26. Grounds exist for the entry of the following Order in accordance with A.R.S. §§ 20-220, 20-397, 20-400.03 and 20-456.

ORDER

IT IS ORDERED THAT:

1. TIL shall cease and desist from:

a. Canceling personal automobile and homeowner policies after the 60-days underwriting period has passed, other than as permitted by law.

b. Not providing the reasons for the cancellations on personal automobile policies.

c. Not complying with the proper notice of refund of unearned premium on personal automobile cancellation notices.

- d. Not providing the reason for nonrenewal on homeowner policies.
- e. Failing to maintain evidence of proof of mailing on homeowner policy cancellations.
- f. Surcharging for non-fault accidents on personal automobile policies.
- g. Not providing 30 days to remedy unacceptable premises conditions before canceling homeowner policies.
- h. Not including the air quality tax amounts in the final settlement of automobile first party total losses.
- i. Failing to issue policies within 90 days of the policy effective date.
- j. Applying schedule or BDM credits and exceeding plan maximums on commercial auto and package policies when the risks are not eligible.
- k. Applying experience credits when risks are not eligible and not applying experience when risks are eligible.
- l. Using incorrect experience rating plans.
- m. Using incorrect loss cost entry levels when calculating experience modifications.
- n. Not obtaining and using the mandatory auto surveys and grid matrix credits developed in the rating of Ultra-PAC risks.
- o. Applying package modifiers to ineligible commercial automobile policies.
- p. Applying undocumented expense reduction and unfiled modifiers on package policies.
- q. Changing companies at renewal to take advantage of lower premiums without justification of the reason for the change.

1. r. Using unfiled rates, rating plans, modifications, deductible factors,
2 increase limit factors and forms, when those are required to be filed with the
3 Department.

4 s. Not applying transition rules when risks are eligible.

5 t. Applying different factors than those documented on the auto grid.

6 u. Not considering the application of the schedule rating plan to risks
7 that are eligible.

8 v. Reducing premium in violation of filed rates in order to meet the
9 competition's quote.

10 w. Not using correct package modifiers.

11 x. Not using correct increase limit factors.

12 y. Not developing composite rates according to filings.

13 z. Failing to follow the filed HPR filing.

14 aa. Failing to follow the Company's loss rating program.

15 bb. Failing to charge for all known exposures.

16 cc. Failing to provide any documentation or providing inadequate
17 documentation of the schedule rating/BDM credit/debit factors.

18 dd. Using schedule/BDM credits/debits that are different than the
19 ones documented.

20 ee. Not providing documentation of the experience calculation used.

21 ff. Failing to document the development of the multiple premium
22 dispersion credit.

23 gg. Not providing the insured 60 days notice of premium increases.

24 hh. Not attaching the Arizona cancellation endorsement.

1 ii. Issuing policies that do not contain policy premiums, composite
2 rates and the exposures being covered.

3 jj. Not making required annual forms filings.

4 kk. Attaching a manuscript endorsement that would void the policy if
5 the insured failed to maintain a contract for claims adjustment.

6 2. Within 90 days of the filed date of this Order, TIA shall submit to the
7 Arizona Department of Insurance, for approval, evidence that corrections have been
8 implemented and communicated to the appropriate personnel regarding all of the
9 items mentioned in Paragraph 1 of the Order section of this Consent Order. Evidence
10 of corrective action and communication thereof includes, but is not limited to, memos,
11 bulletins, E-mails, correspondence, procedures manuals, print screens and training
12 materials.


13 3. Within 90 days of the filed date of this Order, TIL shall pay the unpaid
14 amounts listed in Exhibit A of this Order, plus interest. Interest shall be calculated at
15 the rate of 10% per annum from the date the proof of loss was received to the date of
16 payment. Each payment shall include a letter to the insured in a form previously
17 approved by the Director. A list of payments, giving the name and address of each
18 party paid, the amount of interest paid, and the date of payment, shall be provided to
19 the Department within 90 days of the filed date of this Order.

20 4. The Department shall be permitted, through authorized representatives,
21 to verify that TIL has complied with all provisions of this Order.

22 5. TIL shall pay a civil penalty of \$39,000 to the Director for remission to
23 the State Treasurer for deposit in the State General Fund in accordance with A.R.S.
24 §20-220. The civil penalty shall be provided to the Market Conduct Examination
25 Section of the Department prior to the filing of this Order.

1 6. The Report of Examination of the Market Conduct Affairs of Travelers
2 Indemnity Company of Illinois as of June 8, 1998 including the letter of objection to the
3 Report of Examination shall be filed by with the Department after this Order is issued.

4 DATED at Phoenix, Arizona this 4th day of October,
5 2001.

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7 _____

8 **Charles R. Cohen**
9 **Director of Insurance**
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EXHIBIT A

Personal Automobile Overcharges

<u>POLICY #</u>	<u>Amount Due Insured</u>
9214172531011	\$228
9216453201011	\$513
9202237141011	\$549
Total	\$1,290

1st Party Total Claims Tax Refund

<u>CLAIM #</u>	<u>Amount Due Insured</u>
GUQ0973	\$70.59
GUQ4065	\$19.02
Total	\$ 89.61

CONSENT TO ORDER

1. Travelers Indemnity Company of Illinois has reviewed the foregoing Order.

2. Travelers Indemnity Company of Illinois admits the jurisdiction of the Director of Insurance, State of Arizona, admits the foregoing Findings of Fact, and consents to the entry of the Conclusions of Law and Order.

3. Travelers Indemnity Company of Illinois is aware of its right to a hearing, at which it may be represented by counsel, present evidence and cross-examine witnesses. Travelers Indemnity Company of Illinois irrevocably waives the right to such notice and hearing and to any court appeals related to this Order.

4. Travelers Indemnity Company of Illinois states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Consent Order and that it has entered into this Consent Order voluntarily.

5. Travelers Indemnity Company of Illinois acknowledges that the acceptance of this Order by the Director of the Arizona Department of Insurance is solely for the purpose of settling this matter and does not preclude any other agency or officer of this state or its subdivisions or any other person from instituting proceedings, whether civil, criminal, or administrative, as may be appropriate now or in the future.

6. John R. Nealon, who holds the office of Assistant Secretary of Travelers Indemnity Company of Illinois is authorized to enter into this Order for it and on its behalf.

Travelers Indemnity Company of Illinois

September 27, 2001
(Date)

By John R. Nealon
(Company)

1. **COPY of the foregoing mailed/delivered**
2. **this 10th day of October , 2001, to:**

3
4 Sarah Begley
5 Deputy Director
6 Mary Butterfield
7 Assistant Director
8 Consumer Affairs Division
9 Paul J. Hogan
10 Chief Market Conduct Examiner
11 Market Conduct Section
12 Deloris E. Williamson
13 Assistant Director
14 Rates & Regulations Division
15 Steve Ferguson
16 Assistant Director
17 Financial Affairs Division
18 Alexandra Shafer
19 Assistant Director
20 Life and Health Division
21 Nancy House
22 Chief Financial Examiner
23 Terry L. Cooper
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17 2910 North 44th Street, Second Floor
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19 Travelers Indemnity Company of Illinois
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